

LEGISLATIVE AUDIT COMMISSION



Review of
Department of Revenue
Year Ended June 30, 2004
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REVIEW: 4230
ILLINOIS DEPARTMENT OF REVENUE
YEAR ENDED JUNE 30, 2004

FINDINGS/RECOMMENDATIONS - 13

ACCEPTED - 7
IMPLEMENTED - 6

REPEATED RECOMMENDATIONS - 3

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 22

Includes Findings of Legacy Agencies

This review summarizes the auditors' reports of the Illinois Department of Revenue for the year ended June 30, 2004, filed with the Legislative Audit Commission May 4, 2005. The auditors conducted a compliance examination in accordance with Government Auditing Standards and State law. In addition, they examined the financial statements and indicated they are fairly presented. The Illinois Gaming Board, a division of the Illinois Department of Revenue, is addressed in a separate report. During the audit period, the Department incorporated the employees and the responsibilities of the State Lottery, the Racing Board, the Gaming Board, and the Liquor Control Commission.

The Department of Revenue is empowered to administer, collect, enforce and determine the distribution of the taxes imposed by the State's major tax acts. The Department collects approximately 75% of the receipts deposited into the General Revenue Fund. A significant portion of the Department's total effort relates to the collection of the Retailers' Occupation Tax and related taxes, income taxes, and personal property replacement taxes. The revenue collected from these sources approximates 82% of taxes collected by the Department. The remaining 18% of the Department's revenue is derived from the collection of more than 25 other taxes. In addition to collecting State taxes, the Department collects some taxes on behalf of local governments, administers the Circuit Breaker and Pharmaceutical Assistance Programs, and supervises the property tax system.

The Director during the audit period was Mr. Brian Hamer. He was appointed in February 2003. Prior to his appointment, Director Hamer had no previous association with the Department of Revenue.

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The average number of employees at June 30 was:

	FY04	FY03	FY02
Government Services	111	142	174
Tax Enforcement	573	584	661
Tax Operations	1,217	1,306	1,504
Illinois Gaming Board	79		
Liquor Control Commission	45		
Illinois Racing Board	84		
Illinois State Lottery	195		
TOTAL	2,304	2,032	2,339

Expenditures From Appropriations

The General Assembly appropriated \$1,134,434,571 to the Department in FY04. The Department had expenditures of \$1,000,090,521 in FY04 compared to expenditures of about \$711 million in FY03. The increase was due primarily to the transfer of Horse Racing (+\$6.6 million), the State Lottery (+\$296.9 million), and Dram Shop (+\$4 million). The Local Government Distributive Fund increased \$11.2 million. In 2003, the Department's Circuit Breaker and Pharmaceutical Assistance program was paid entirely from the Tobacco Settlement Recovery Fund. In 2004, only a portion of the program costs were paid from that Fund (-\$55 million) and the remaining costs for 2004 were paid from GRF. Appendix A summarizes the appropriations and expenditures for the period under review.

Cash Receipts

Appendix B summarizes cash receipts of the Department for the year under review. Cash receipts increased from \$24.3 billion in FY03 to \$27.2 billion in FY04, an increase of 11.9%. Significant portions of the receipts relate to the collection of the income tax (39.3% of all revenues) and the Retailers' Occupation Tax and related taxes (37.4% of all revenues). The remaining 23.3% of the Department's revenue is derived from numerous other taxes, fees, assessments, penalties and interest which the Department is empowered to collect.

The Lottery, Dram Shop, Horse Racing and other recently transferred activities accounted for about \$1.08 billion of the \$2.9 billion increase in receipts in FY04 compared to FY03.

Taxes Receivable Balances

Appendix C is a summary of taxes receivable balances. Total taxes receivable increased from \$1,757,167,000 as of June 30, 2003 to \$1,966,841,000 at June 30, 2004. These taxes are due from individuals, corporations, and businesses. In FY04, approximately \$753 million of \$1.9 billion was considered uncollectible.

Property Report

Appendix D is a summary of changes in State property for FY04 and FY03. Total equipment increased from \$23,633,000 as of June 30, 2003 to \$29,733,000 as of June 30, 2004.

Efficiency Initiative Payments

Summarized in the table below is the schedule of efficiency initiative payments made by the Department in FY04.

Efficiency Area	FY04
Procurement	\$ 4,321,900
Facilities Management	38,014
Information Technology	3,252,487
Vehicle Fleet	75,308
Total Efficiency Initiative Payments	\$ 7,687,709

Accountants' Findings and Recommendations

Condensed below are the 13 findings and recommendations presented in the audit report. There were three repeated recommendations. Updated responses to the recommendations are classified based on information provided by Director Brian Hamer in a memo dated September 15, 2005.

Accepted or Implemented

- 1. Make payments for efficiency initiative billings only from line item appropriations where savings would be anticipated to occur. Further, seek an explanation from CMS as to how savings achieved or anticipated impact the Department's budget.**

Findings: The Department made payments for efficiency initiative billings from improper line item appropriations. During FY04, the Department received four billings totaling almost \$77 million from CMS for savings from efficiency initiatives. The initiatives and amounts billed were:

- Procurement Efficiency \$4,321,900
 - Information Technology 3,252,487
 - Vehicle Fleet Management 75,308
 - Facilities Management Consolidation 38,014
- \$7,687,709**

Accepted or Implemented – continued

The Department did not receive guidance or documentation with the billings detailing from which line item appropriation savings were anticipated to occur. According to Department staff, the Department is uncertain if any FY04 savings were achieved since CMS has not provided any such information to the Department. The only guidance received was the amount of payments that should be taken from GRF (\$2,041,638) versus Other Funds (\$5,608,057). The auditors found that the Department made payments for the billings not from line items appropriations where the cost savings were anticipated to have occurred, but from line items that simply had available monies. For instance:

- \$3.2 million from appropriations from the Motor Fuel Tax Fund to make payments relative to the procurement and information technology efficiency initiatives.
- \$4,236,452 from personal services line item appropriations to make payments for billings relative to vehicle fleet management, procurement, information technology and facilities management.
- \$15,200 of appropriations from the Underground Storage Tank Fund to make payments relative to procurement efficiency initiatives.
- \$20,000 from Group Insurance to make payments for the procurement efficiency initiative.
- \$200 from the Tobacco Settlement Recovery Fund to pay for the procurement initiative.

Response: The Department agrees with the recommendation to make future savings payments from appropriations lines for which it anticipates obtaining savings. The Department of Central Management Services will provide information to the Department on the method by which future savings estimates are derived.

The Department initiated payment from appropriations in which funds were anticipated to be available within the budget from 51 operating appropriation accounts spanning 14 funds, any of which could have been related to the anticipated savings to be achieved from the efficiency initiatives. The Department agrees that based on the lack of information provided there was no way to know for certain if each payment was made from specific line item appropriations where specific savings were anticipated to occur.

Two payments were also made from the Department's Motor Fuel Tax Refund appropriation. Prior to making these two payments the Department requested and received a legal opinion regarding the appropriateness of making payments to the Efficiency Initiative Revolving Fund from the Motor Fuel Tax Refund appropriation for this purpose.

The finding specifically mentions that the \$75,308 General Revenue Fund billings for the Vehicle Fleet Management Initiative were not paid from the operation of automobile equipment appropriation. The finding goes on to question that IT initiative billings were not paid from EDP related appropriation line items. The potential finding also takes exception with payments from the Underground Storage Tank Fund, the State Gaming Fund and the Tobacco Settlement Recovery Fund.

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The Department's operation of automobile equipment appropriation was \$25,900, approximately one-third of the \$75,308 payment required. The Department chose to make the payment from personal services, an appropriation from which fleet management employees are paid. A significant portion of the IT billing was paid from personal services and associated benefit line item appropriations where the vast majority of the IT budget resides.

In addition, the Department can find no exclusion referenced in Public Act 93-0025 pertaining to payments to the Efficiency Initiatives Revolving Fund from the Underground Storage Tank, State Gaming, or Tobacco Settlement Recovery Funds.

Payments made by the Department to the Efficiency Initiatives Revolving Fund did not result in an adverse effect on services the Department provides.

Updated Responses: Implemented. The Department has received subsequent efficiency initiative billings from CMS. CMS has provided us where the anticipated savings would occur and the accounts from which we should pay the efficiency initiative billings.

2. In order to strengthen controls, identify conflicting duties and make appropriate changes in procedures to ensure adequate segregation of duties.

Findings: The Department has not adequately segregated duties for Lottery investments and Lottery cash receipts and disbursements of locally held funds. The Lottery takes in revenues in excess of \$1.7 billion, makes disbursements for operating purposes of \$1.1 billion and is responsible for managing investments and other assets in excess of \$1.2 billion. Many of the accounting functions of the Lottery are assigned to the Lottery Division's Manager of Financial Accounting:

- Selecting and approving investment firms to solicit for securities
- Contacting investment firms for quotes
- Accepting quotes from investment firms to purchase securities
- Recording the acquisition of securities
- Tracking of security maturities
- Receiving statements from investment custodians
- Recording activity of matured securities
- Recording the disbursement of funds
- All accounting and bookkeeping relating to the investments of the Lottery Prizewinners Fund
- Receipt of activity reports from independent third party, private company responsible for administering Lottery operations
- Summarize activity for Lottery receipts and disbursements
- Record in the Lottery general ledger Lottery revenues earned and receivables from Lottery agents
- Record in the Lottery general ledger payments to certain winners, Lottery agents and vendors

Accepted – Implemented - continued

- Authorize certain payments to Lottery agents and vendors
- Transfer funds to execute certain payments.

The cash receipt and disbursement activities involve approximately \$800 million annually in Lottery locally held funds and these activities are not recorded on the State Comptroller's accounting system.

Good internal accounting practices limit the functions that any one individual can perform. Specifically, responsibility for custody of cash and investments should be segregated from responsibility for recording transactions and approving transactions. All transactions involving the movement of cash should be the responsibility of another individual. Similarly, a third person should be involved in the approval of transactions and the review and approval of the information contained in the general ledger.

Response: Accepted. Certain changes with respect to segregation of duties were made prior to the close of the audit period. Additional transfers of duties have occurred during fiscal year 2005, and we believe that there is now an appropriate segregation of duties with respect to both the Lottery's investment functions and its locally held funds.

Updated Response: Implemented. The conflicting duties have been identified and appropriately segregated.

3. Acquire an adequate accounting software package for accounting transactions relating to the Lottery Prizewinner's Fund.

Findings: The Lottery Prizewinner's Fund was created to account for the monies that have been set aside by the Department to pay future amounts due to Lottery Prizewinners. The fund consists primarily of US Government securities in varying denominations with maturity dates designed to coincide with payments due to Lottery Prizewinners. If a prizewinner does not opt for a lump sum payout, amounts are generally paid annually over a 25-year period. The Prizewinner's Fund contains numerous investments maturing every quarter. The investments held by the Fund are \$1.234 billion as of June 30, 2004.

The Department does not utilize an accounting software package to record the financial activity of the fund. Instead, the Department has created several electronic spreadsheets. Good internal accounting practices necessitate the need for an adequate accounting system. Management has the ability to easily manipulate or change the data in this current system without being detected. The biggest risk is the potential to add erroneous data, delete or modify historical data, or create unsubstantiated entries without any oversight, recording or audit trail.

Response: Accepted. In an effort to make our accounting function more efficient and user-friendly, we plan to purchase and implement an accounting software package to

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better manage accounting for Lottery accounting transactions including receivables and investments.

Updated Response: Accepted. The Department of Revenue worked with CMS to survey accounting software packages used by other lotteries and have identified one that would address the issues presented in this finding. We plan to procure this software package by November 30, 2005. We will then develop a system to generate reports, migrate the data, test and plan to implement by June 30, 2006.

4. Update the accounting software used to produce detailed transaction level information for the Lottery Operating Funds.

Findings: The Department's accounting system for the activity related to the Lottery Operating Funds does not contain sufficient data for efficient review and analysis. The Department uses a DOS-based commercial accounting package to record all activity of the Lottery. The general ledger system requires that data be summarized manually from reports provided by the third party contractor. Summarized information is then entered through journal entries into the commercial accounting package. It is not possible to use the package to print reports with transaction level detail.

Response: Accepted. The Department agrees that there is a more updated accounting software package that would simplify accounting and reporting and are working with CMS to identify a package to purchase and implement.

We also agree that good internal accounting practices necessitate the need for adequate documentation and a good audit trail, both of which support all information reported in the financial statements. The vast majority of the Lottery Operating Funds transactions are accounted for in the Lottery's GTECH system is SAS70 compliant. In addition, we are looking at a more cost effective way to record this activity.

Updated Response: Accepted. The Department of Revenue worked with CMS to survey accounting software packages used by other lotteries and have identified one that would address the issues presented in this finding. We plan to procure this software package by November 30, 2005. We will then develop a system to generate reports, migrate the data, test and plan to implement by June 30, 2006.

5. Develop a records retention policy relating to the monthly summary schedules of investment activity of the Lottery Prizewinner's Fund.

Findings: The Department does not retain certain summarized information on monthly securities once the monthly activity summary is produced. The Department created several electronic spreadsheets which function as the accounting system for the Lottery

Accepted or Implemented - continued

Prizewinner's Fund. The activity for the fund is manually entered into these spreadsheets. The detailed information is entered into summary schedules on a monthly basis and a monthly summary of transactions is created. Once the summary schedules are created and submitted to the Department's accounting firm, the summaries are overwritten with the subsequent period date. Without the summary schedules of investment activity by security, it is more difficult to ensure that every transaction has been properly recorded.

Updated Response: Implemented. The Lottery Finance Manager now retains the summarized monthly information for each investment security that makes up the monthly totals, as requested by the auditors. The Lottery's records retention schedule (Application No. 01-32, Item 320.003) requires Lottery securities purchase files to be retained for five years after the contractual obligation has been satisfied.

- 6. Perform a 100% reconciliation of all active prizewinners to ensure adequate funds have been obtained and earmarked for every prizewinner that still has funds due from the Lottery. This reconciliation should further ensure that all amounts due to prizewinners according to their signed statements and winning tickets agree to the investments that have been earmarked for each winner. Adopt procedures to perform the reconciliation of these two systems on a regular basis.**

Findings: As of June 30, 2004, the total amount owed to Lottery Prizewinners was \$1.202 billion and the total amount of the investments was \$1.234 billion leaving a discrepancy of \$32 million.

The records for the amounts due to Lottery Prizewinners are kept in one computerized system and the records of the investments are kept in another system. The Department has established procedures to ensure data entered into each system is in balance at the time of data entry and when the payment is made. In one instance out of 20 items tested, the winning ticket called for a total winning jackpot amount of \$26 million. However, the investment records indicated that \$25.6 million in investments had been acquired and earmarked for this individual, a discrepancy of \$400,000.

After a detailed review of this exception, the Department indicated that the Lottery's third party contractor must have made an error in the printing of the winning ticket. Apparently the correct amount was \$25.6 million.

Response: Accepted. The Department will conduct an annual, manual reconciliation of the investment records maintained electronically by the Finance Division and the Claims Unit. By July 31, 2005, procedures will be developed to perform this reconciliation on an annual basis.

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The Lottery's Finance Manager balanced the two systems after identifying reconciling items that included unclaimed prizes for which liquidation authorization was pending, payments deleted from the claims system due to pending distribution from a deceased prizewinner's estate, and lump sum payments for Win for Life winners.

Updated Responses: Implemented. Reconciliation procedures have been established. The procedures provide for the two data sets to be reconciled as of June 30 each year, with the reconciliation report to be finalized no later than December 31. In addition, the reconciliation for fiscal year ending June 30, 2005 has been completed.

- 7. Adhere to established internal control and contractual provisions in reviewing and authorizing invoices for payment. Also, require vendors to submit sufficient documentation to support billings and the department should maintain that documentation for any subsequent review. Further, with regard to the marketing contract, reconcile payments to any supporting documentation and seek reimbursement from the vendor for payments that are not adequately supported.**

Findings: The Department entered into an agreement for advertising with an outside vendor. The amount of the contract was approximately \$10 million. The contract permits billing for media based upon estimates with the vendor submitting final detailed bills as soon as possible after the actual expense is incurred.

Throughout the contract period, numerous estimated media bills were submitted and paid timely. These bills contained certain approvals for processing voucher payments. However, actual invoice amounts, which were later submitted, lacked adequate details. Out of 20 invoice vouchers tested, 13 did not have appropriate supporting documentation provided timely. Approximately \$2.1 million out of \$3 million tested could not adequately be supported with the information on the invoice from the vendor. The vendor did not submit the required end-of-year detailed accounting.

Response: Accepted. The Department agrees with the recommendation to adhere to internal controls and contractual provisions in reviewing and authorizing invoices for payment. Moreover, the Department has implemented numerous procedures to thoroughly review the outside vendor invoices and to ensure proper payments.

The Department engaged a forensic accountant in January 2005 to trace the invoicing and payment stream from the vendor to the Lottery and revenue to the Vendor (c/o the escrow agent) contractors who provide service to the Lottery. The purpose of tracing these payments was to determine whether the vendor provided documentation to support the invoices' legitimacy as Lottery expenses and to determine whether the vendor processed payments received from the Lottery to third-party vendors and did so in a timely manner. The time period the investigation covers is September 1, 2003 – November 30, 2004. We expect a report by May 1, 2005.

Accepted or Implemented - continued

With respect to on-site review of vendor payments records, Lottery staff has in the past conducted spot audits twice yearly. Plans to conduct the review for the second half of fiscal year 2004 were originally canceled in light of the ongoing audit being conducted by the Office of Internal Audit. The determination was made that efforts by department staff would be duplicative. The Department resumed on-site reviews on a quarterly, sampling basis, commencing with the period July 2004 – December 2004. At this point we have not identified significant discrepancies in our analysis. The Department also plans to go back and perform on-site analysis of vendor payments for the time frame the current vendor was under contract during the audit period.

Updated Response: Accepted. The Department has in place written internal control procedures requiring that redundant invoice review and documentation occur prior to payment of invoices related to this contract. The process includes seeking and obtaining prior approval for expenditure estimates and bid proposals where applicable. The Lottery Superintendent or Marketing Director signs off on invoices in order to assure that the expenditures are in line with the Lottery's previously approved estimate and both signatures are required for media and production estimates. The invoices then come to the Department's Budget Office to assure funds are available. They then are sent to the Department's Financial Control Bureau whose staff judges the appropriateness and adequacy of support and documentation before affixing the Revenue Director's signature. In addition, we maintain documentation supporting invoices at both the Lottery as well as the Department's Financial Control Bureau. We require reconciliations at the end of each project to ensure that payments are consistent with estimates and to ensure overpayment does not occur or is credited to the Lottery where appropriate. Additionally, in response to certain unique Lottery transactions involving, for example, actors, separate bill payment procedures have been adopted.

In order to determine the propriety of past expenditures, in February of this year we retained a forensic accountant to review the general advertising vendor's books. Alternative procedures utilizing the books and records of subcontractors to the vendor were performed with the conclusion being that media invoices were considered to be reliable. The forensic auditors did not find evidence of misuse or waste of the Department of Revenue's funds regarding the media purchasing. We have also conducted an internal review of non-media invoices and found no evidence of misuse or waste.

In addition, during the last few months, the Department's Financial Control Bureau conducted a review of 75 randomly selected transactions from the 11 vouchers cited by the Office of the Auditor General in their fiscal year 2004 audit that purportedly "did not have appropriate supporting documentation provided in a timely basis." No significant discrepancies between lottery vouchers paid to the vendor and the associated third party back-up documentation for services provided were found during that Financial Control Bureau review. Going forward, we have enhanced the review process by increasing the frequency of reviews to a quarterly basis. The review process also includes a reconciliation of lottery payments to the vendor compared to the associated vendor

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payments made to third parties for services provided to the lottery. In addition, an account has now been established with Lakeside Bank acting as an escrow agent exclusively for the Lottery. Thus, only Lottery revenues and Lottery expenses flow through this new, exclusive account. This change simplifies the tracking of income and expenses associated with the vendor's work for the Lottery.

8. Perform additional procedures to ensure all cash reconciling items are properly identified on the cash reconciliation each month.

Findings: The Department does not have adequate cash reconciliation procedures in place for the main cash account used by the Lottery Division. The Revenue Reconciliation Bureau of the Department has the primary responsibility for performing the monthly reconciliation of the cash per the State's Treasury to the books and records of the Lottery. Each month a worksheet is prepared which is supposed to reconcile the two amounts. However, the worksheets prepared do not take into account all reconciling differences and therefore the amounts do not reconcile.

Each month the cash reconciliation contains a difference between the cash per Treasurer and the books of the Lottery. The unreconciled difference at June 30, 2004 was approximately \$1.5 million.

Updated Response: Accepted. The Department concurs with the recommendation and has established new procedures that ensure that all cash reconciling items are properly identified on the cash reconciliation each month.

9. Maintain appropriate records on distributions from the prize closet or through other incentive programs. Follow State property laws and regulations for any items placed into or taken from the prize closet or otherwise received from vendors and distributed to employees, agents and others. Establish clear legal authority for, and follow rules pertaining to, the distribution of items of value received from Lottery vendors.

Findings: The Lottery operated a "prize closet" containing electronics and other merchandise donated by broadcasting stations without maintaining proper documentation and accountability. During this engagement it came to the attention of the auditors that the Lottery had operated a "prize closet" dating back to 1989 and possibly longer. In the fall of 2003, Lottery's then general marketing contractor was directed by Lottery to solicit donations such as electronics (televisions, sound systems, MP3 players, etc), travel/entertainment or gift certificates from statewide retailers. According to the letter sent to broadcasting stations requesting the donations, the donations were to be used "as incentives to create excitement and rewards within the Lottery's team of dedicated employees."

Accepted or Implemented - continued

As a result of the fall 2003 solicitation, Lottery received over 1,000 individual items which were placed into a “prize closet.” Receipts of donations continued through December 4, 2004 when the Director of Revenue made a decision to stop the “prize closet” operation.

The Lottery maintained a perpetual inventory of items placed in and removed from the prize closet. When items were removed from the prize closet, a request form showing the date, the item, the person requesting the item and the recipient of the item was completed. In eight instances, the Department could not provide evidence reflecting who the ultimate recipient was.

Department officials indicated that Lottery personnel did, in fact, receive incentives as part of promotional activities associated with the Lottery. However, the Department maintained that the incentive awards were not made from the prize closet, but were purchased by the Lottery’s advertising and public relations agencies for this purpose. The value of those incentives was included in each employee’s W-2 wage reporting.

Further, the items maintained in the prize closet were never valued, tagged as property, recorded in the Department’s inventory records, or identified in State property reports, as required by statute. Lottery’s authority to distribute State property to persons other than Lottery sales agents, such as Lottery employees, was repealed effective January 22, 2004.

Response: Implemented. The Department has suspended the practice of soliciting or receiving hard goods in conjunction with media buys, and has returned related items in possession. In the future, if the Lottery resumes this practice, the Lottery will maintain appropriate records and will follow the State Property Control Act (30 ILCS 605/1 et. seq) and regulations promulgated there under (44 Ill. Adm. Code Part 5010). The Department will also obtain a legal opinion from General Counsel and CMS as to the appropriateness of establishing clear legal authority for, and follow rules pertaining to, the receipt and distribution of items of value received from Lottery vendors.

If the “incentive” practice is re-established, procedures will be established that require the Lottery retailer (or in the case of an approved employee incentive program, the receiving employee) sign for the award and that the signed receipt be returned to the Lottery Central to supplement inventory records.

The ending inventory did identify the ultimate recipient of all but eight of the 500+ items in the incentive inventory. There is good reason to believe that these incentives were of nominal value (1 CD, 5 DVDs, 2 VHSs) and were distributed in the Numbers Now sales clerk incentive program per program parameters, even though staff departures prevent us from identifying the particular retail locations to which they were distributed.

10. Perform additional information system reconciliations and cross-matches and take appropriate action to ensure collection of tax revenues owed to the State. (Repeated-2003)

Findings: The Department has not implemented various automated reconciliation and cross-match procedures to ensure that information included in certain automated systems reconciles to other Department information system records or data available externally.

The auditors noted the following from the Department's internal audit reports:

- The Department is not entering all the data that is received from individual taxpayers or businesses. This practice prohibits the Department from performing some automated cross-match or reconciliation to other Department information system records or external sources that are available.
- The Department has not performed a reconciliation or cross-match between certain tax information available internally to tax information available externally for individuals who only report wages on the individual's tax return or have not filed a tax return, but have received wages from an employer.
- The Department has different tax systems for Withholding Income Tax, Individual Income Tax, and Business Income Tax. Additional reconciliation and cross matching between the systems could realize associated compliance benefits.

Response: Accepted. In the response of administering the Illinois Tax Code, the Department verifies and cross matches the information that taxpayers provide on their returns with a number of outside data sources, including the Department of Employment Security, the IRS, the State Board of Education, Social Security Administration, and Departments of Professional Regulation and Public Aid, as well as with information previously provided to the Department of Revenue. For example, it uses information that Illinois employers provided to other State agencies to verify, via an electronic comparison, the accuracy of wage and withholding claimed on the Illinois returns.

The Department periodically reviews samples of wage-only filers as a compliance tool. We will continue to do periodic projects involving non-filers for the publicity and to spot problems with which we may not be familiar.

The Department is seeking further ways to tap into existing Department information and information held by other entities as a tool to assure tax compliance. The Department is also preparing an RFP for modernization of its tax systems that will enhance its technical ability to match data between its tax systems and with outside entities.

11. Continue progress in the development of an inventory system that can track cases/taxpayer correspondence from the time it is received by the Department until it is set up in the collection process or sent to Files, and provide management with adequate reports. (Repeated-2003)

Accepted or Implemented - concluded

Findings: The Department does not have an efficient electronic system to track cases/taxpayer correspondence that the Department receives and maintains. The auditors noted that the Individual Income Tax Division utilized six different inventory systems to track cases/taxpayer correspondences. Tracking of cases/inventory is not effective due to the following:

- True aging of accounts is difficult to determine when inventory is closed on one system and set-up on another system. The aging starts over every time the account is moved.
- Movement of cases between areas requires closure on one inventory system and set-up on another inventory system. This means that employees must re-enter all information in the new system.
- The Department must look in several inventory systems to find a case file or taxpayer correspondence.
- Information services must maintain several different systems.
- Employees must be trained on different systems and given access to several different systems.
- Management must review several different inventory reports.

Department personnel indicated that a Tax Response Monitoring system has been selected to be upgraded to take over all of the functions of the other five inventory systems.

Response: Accepted. The Department concurs with the recommendation and continues to make significant progress toward total implementation of TRM as a processing-wide inventory/tracking system for IIT.

Updated Response: Accepted. The TRM system has been fully implemented in the Individual Income Tax Processing Division.

12. Modify the Withholding Income Tax System to allow for accounts that have credits to offset the liabilities to reduce the need for additional resources. (Repeated-2003)

Findings: The Department's Withholding Income Tax (WIT) System is not efficient in regard to liabilities that can be offset by credits. The WIT System allows for individual accounts to be sent to the Illinois Collection system even though the individual accounts have outstanding credits on their account. These credits could be used towards the individual's liability. This process requires the Collections Bureau to investigate and process accounts that would be offset by credits. The WIT System is not cost effective or efficient due to the additional resources utilized to review these accounts.

Updated Response: Accepted. We have implemented a systemic credit offset of WIT liabilities with available WIT credits that has enhanced the manual process.

- 13. Direct fleet management to create a procedure ensuring the notification of payroll whenever there is a change in fleet cars. When an employee is assigned a State vehicle, fleet management should notify payroll with the change in order for payroll to make the necessary changes. Further, direct fleet management to send a list to payroll at timely intervals throughout the year.**

Findings: The Department did not require or retain the proper documentation when a State vehicle was used for personal use. The Department also did not properly charge the fringe benefit to the employee.

Updated Response: Implemented. Fleet management has implemented the recommendation as follows:

- 1) When a change occurs in fleet car assignments, fleet management will send a memo to payroll notifying payroll of specific change; and
- 2) Every six months, fleet management will submit a complete updated list to payroll of all Department of Revenue vehicle assignments.

Emergency Purchases

The Illinois Purchasing Act (30 ILCS 505/1) states that “the principle of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts.” The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption for emergencies “involving public health, public safety, or where immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage ... prevent or minimize serious disruption in State services or to insure the integrity of State records. The Chief procurement officer may promulgate rules extending the circumstances by which a purchasing agency may make ‘quick purchases’, including but not limited to items available at a discount for a limited period of time.”

State agencies are required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit is to set forth the circumstance requiring the emergency purchase. The Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

During the audit period, the Department filed three affidavits for emergency purchases totaling \$8,132,333.73 as follows:

- \$7,446,822.65 for a new ad agency contract when the previous one quit;
- \$480,997.08 to promote the tax amnesty program; and
- \$204,514.00 for computer assistance.

Headquarters Designations

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all its officers and employees for whom official headquarters have been designated at any location other than that at which official duties require them to spend the largest part of their working time.

In July of 2004, the Department indicated it had 475 employees assigned to a location other than official headquarters.